

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4051-01
BILL NO.: HB 1810
SUBJECT: Business and Commerce; Corporations; Economic Development; Taxation and Revenue - General.
TYPE: Original
DATE: February 14, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$57,758) to (\$11,057,758)	(\$60,911) to (\$11,060,911)	(\$62,487) to (\$11,062,487)
Total Estimated Net Effect on <u>All</u> State Funds	(\$57,758) to (\$11,057,758)	(\$60,911) to (\$11,060,911)	(\$62,487) to (\$11,062,487)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal increases the Capital Tax Credit program by \$11 million. It redefines the “Principal Owner” definition to one or more persons who own an aggregate of 20% or more of the business. By making this change, more businesses would be eligible which may allow for an increase in use of the program. The DED assumes an unknown positive impact should be realized from the additional \$11 million in capital tax credits authorized.

The DED assumes the \$11 million additional tax credits will be issued each year and that there will be additional businesses eligible to receive the credits. The DED assumes the need for one additional Economic Development Incentive Specialist II (at \$36,468 annually) to process additional tax credit applications. Necessary expense and equipment for this additional FTE are also needed.

Officials from the **Department of Revenue** state this proposal would increase the tax credits for qualified investments in small businesses from \$19 million to \$30 million. The total amount of tax credits available for investments in Missouri small businesses shall not exceed \$24 million, and at least \$4 million shall be used exclusively for investments in Missouri small businesses in distressed communities.

The Department anticipates an increase in the number tax credits. However, the increase is unknown. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of \$6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). The Personal Tax Bureau will also need one Tax Processing Tech I for every 30,000 additional errors generated. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits received.

The **Office of Administration, Budget and Planning** defer to the DED for estimates for fiscal impact.

Oversight assumes the Department of Revenue could request additional FTE to process the additional credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to have no additional costs from this proposal.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss</u> - General Revenue Fund	\$0 to	\$0 to	\$0 to
Increase in tax credits for small businesses (\$11,000,000)	(\$11,000,000)	(\$11,000,000)	(\$11,000,000)

Costs - Department of Economic Development (DED)

Personal Service	(\$31,137)	(\$38,314)	(\$39,272)
Fringe Benefits	(\$9,575)	(\$11,782)	(\$12,076)
Expense and Equipment	(\$17,046)	(\$10,815)	(\$11,139)
Total <u>Costs</u> - DED	(\$57,758)	(\$60,911)	(\$62,487)

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$57,758) to (\$11,057,758)	(\$60,911) to (\$11,060,911)	(\$62,487) to (\$11,062,487)
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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\$0	\$0	\$0
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FISCAL IMPACT - Small Business

Small businesses would be expected to be directly impacted as a result of this proposal.

DESCRIPTION

This proposal makes various changes to the provisions of tax credits for investments in Missouri small businesses. The proposal:

- (1) Lowers the investment requirement of principal owners of Missouri small businesses eligible for investment from 50% of the business to 20% of the business;
- (2) Increases the statewide maximum of tax credits available for investment in Missouri small businesses and community banks or community development corporations from \$19 million to \$30 million;

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DESCRIPTION (continued)

- (3) Provides that \$24 million of the \$30 million maximum statewide credit be available for qualified investments in Missouri small businesses and \$6 million for investment in community banks or community development corporations; and
- (4) Requires that no more than 20% of the tax credits available for investments in community banks or community development corporations be certified for any one project.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Office of Administration
Budget and Planning



Jeanne Jarrett, CPA
Director
February 14, 2000